FOOTHILLS

Oil & Gas Ltd.

ANNUAL REPORT

JUNE 30, 1996

CORPORATE PROFILE

Foothills Oil & Gas Ltd. is a Calgary based, public oil and gas company. It is engaged in the production, acquisition and development of hydrocarbons in Canada. Management is currently pursuing growth through the acquisition of producing properties where it has identified future upside potential. The common shares of the Company are listed for trading on the Alberta Stock Exchange under the symbol "FH".

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ANNUAL GENERAL MEETING

Shareholders and members of the public who are interested in receiving more information are invited to attend the Company's Annual Meeting to be held at the offices of Macleod Dixon, 3700, 400 - 3rd Avenue S.W., Calgary, Alberta at 9:00 a.m. on Monday, December 16, 1996.

HIGHLIGHTS

		1996		1995
Production (period of February 27 to June 30, 1996)				
Oil and natural gas liquids (barrels per day)		**26**		**0**
Sales price (per barrel)		**$ 22.76**		**0**
Natural gas (thousand cubic feet per day)		**210**		**0**
Sales price (per thousand cubic feet)		**$ 1.13**		**0**
Barrels of oil equivalent per day		**47**		**0**
Reserves (barrels of oil equivalent)		**166,897**		**0**
Financial				
Revenue (before royalties)	**$**	**104,694**	**$**	**-**
Cash flow from operations before changes in working capital	**$**	**32,147**	**$**	**(10,606)**
per common share (basic)	**$**	**0.01**	**$**	**-**
Net earnings (loss)	**$**	**(2,417)**	**$**	**(10,606)**
per common share (basic)	**$**	**-**	**$**	**-**
Capital expenditures	**$**	**703,758**	**$**	**501**
Working capital	**$**	**217,829**	**$**	**240,440**
Common shares outstanding (year-end)		**9,420,000**		**3,400,000**
Common shares outstanding (weighted average)		**5,406,667**		**3,400,000**

Report to Shareholders

The year ended June 30, 1996 was a time of significant changes for Foothills Oil & Gas Ltd. postioning the Company for future growth and prosperity.

Started in September, 1993 as a Junior Capital Pool corporation as defined in the Alberta Securities Commission Policy 4-11, Foothills completed its Major Transaction in late February, 1996. This process included the acquisition of proved producing oil and gas assets, infusion of new capital and a change in management and Board personnel with the aim of providing the Company with a solid foundation for future growth.

Through this Major Transaction, Foothills acquired the Hayter property located on the Alberta/Saskatchewan border and the Woking property located in northwestern Alberta. These properties have provided the Company with the required cash flow to establish an operating presence as management continues to search for new areas of growth.

The Hayter property, consisting of a 98.5% working interest in 3 operated oil wells and battery facilities, averaged 22 barrels of oil per day net to the Company during the period February 27, 1996 to June 30, 1996. Total reserves assigned to the property were 123,000 barrels of oil as at July 1, 1996.

The Woking property consists of an average 8.33% working interest in 3 producing gas wells, 1 producing oil well, 6 shut in gas wells and a gas plant and gathering system. Production net to the Company for the period February 27, 1996 to June 30, 1996 was 210 thousand cubic feet per day of natural gas and 5 barrels per day of oil. Total Company reserves assigned to the property were 231,000 thousand cubic feet of natural gas and 21,000 barrels of oil.

Coincident with the closing of the Major Transaction, Foothills completed a private placement of 2,100,000 common shares for net proceeds of $210,000.

Following the closing of the Major Transaction and the equity placement, the Company announced the appointments of Mr. William J. Kiff as President and Director and Mr. Kevin A. Kelly as Director. Mr. Raymond A. Siwiec continues to remain on the Board. The Board would also like to thank departing Board members, Mr. Philip A. Coleman and Mr. P. Douglas McArthur, whose hard work and foresight were instrumental in the formation of Foothills Oil & Gas Ltd.

The management and Board of Foothills will pursue a strategy of growth through carefully planned and evaluated acquisitions involving both asset purchases and corporate transactions with initial emphasis on quality proved producing properties. Tightly controlling general and administrative and operating costs while maintaining limited debt exposure will be a stated criteria to the future operations of the Company.

In the opinion of management and the Board, an ideal environment exists for the acquisition and subsequent exploitation of smaller asset packages in the Canadian oil and gas segment. The ability to identify, evaluate and finance such opportunities will be the cornerstone of the Company's growth and success.

Management, directors and staff look to the upcoming year with enthusiasm.

William J. Kiff
President

OPERATIONS

Prior to the acquisition of the Woking and Hayter properties on February 27, 1996, the Company did not have any oil and/or natural gas production. For the period February 27, 1996 to June 30, 1996, Foothills averaged 26 barrels per day of oil and 210 thousand cubic feet per day of natural gas. Revenue before royalties for the period was $105,000. The Company received an average of $22.76 per barrel for its oil during the period and $1.13 per thousand cubic feet for natural gas. The average price per barrel of oil equivalent during the period was $17.68 per barrel.

Cash flow from operations for the period was $32,000 and the Net Loss was $2,417.

RESERVES

The Company's oil and gas reserves, all located in Canada, were evaluated by Henderson and Associates Petroleum Consultants Ltd. effective July 1, 1996.

Total oil reserves net to Foothills were 144,000 barrels. Approximately 85% of these total oil reserves were attributable to the Hayter property. Total natural gas reserves net to the Company were 231,000 thousand cubic feet with all of these reserves located in the Woking property. Given the current low natural gas price environment, no analysis has been undertaken to evaluate the probable or proved non-producing reserves for the Woking property.

COMPANY WORKING INTEREST RESERVES BEFORE ROYALTIES

	Crude Oil (barrels)	Natural Gas (mcf)	Present Value 15% DCF ($)
Proved			
Producing	80,400	231,400	$ 684,700
Non-Producing	0	0	$ 0
Total Proved	80,400	231,400	$ 684,700
Probable	63,400	0	$ 199,000
Total	143,800	231,400	$ 883,700

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
FOOTHILLS OIL & GAS LTD.:

We have audited the consolidated balance sheets of Foothills Oil & Gas Ltd. as at June 30, 1996 and 1995 and the consolidated statements of loss and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 1996 and 1995 and the results of its operations and changes in financial position for the years then ended in accordance with generally accepted accounting principles.

Barr Shelley Stuart

CHARTERED ACCOUNTANTS

Calgary, Alberta

October 22, 1996

FOOTHILLS OIL & GAS LTD.

CONSOLIDATED BALANCE SHEETS

As at June 30

		1996	1995
ASSETS			
Current			
Cash and short term deposits		**$ 167,242**	$ 240,866
Accounts receivable		**71,747**	1,574
Inventory, prepaid expenses and deposits		**42,573**	-
		281,562	242,440
Property and equipment	*(Note 3)*	**689,476**	16,182
		$ 971,038	$ 258,622
LIABILITIES			
Current			
Accounts payable and accrued liabilities		**$ 63,733**	$ 2,000
Future abandonment and site restoration provision		**7,100**	-
Deferred income taxes	*(Note 4)*	**27,000**	-
		97,833	2,000
SHAREHOLDERS' EQUITY			
Share capital	*(Note 5)*	**886,228**	267,228
Deficit		**(13,023)**	(10,606)
		873,205	256,622
		$ 971,038	$ 258,622

See accompanying notes

On behalf of the Board:

Director

Director

FOOTHILLS OIL & GAS LTD.

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

Years Ended June 30

		1996	1995
Revenue			
Petroleum and natural gas sales		$ **104,694**	$ -
Royalties, net of ARTC		**(17,315)**	-
		87,379	-
Expenses			
Production		**35,343**	-
General and administration		**19,889**	10,606
Depletion and amortization		**30,464**	-
Future abandonment and site restoration		**4,100**	-
		89,796	10,606
Loss before income taxes		**(2,417)**	(10,606)
Provision for income taxes	*(Note 6)*	**-**	-
Net loss for the year		**(2,417)**	(10,606)
Deficit, beginning of year		**(10,606)**	-
Deficit, end of year		$ **(13,023)**	$ (10,606)
Loss per share	*(Note 7)*	$ **-**	$ -

See accompanying notes

FOOTHILLS OIL & GAS LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years Ended June 30

		1996	1995
Net inflow (outflow) of cash related to the following activities:			
Operating			
Net loss for the year		$ **(2,417)**	(10,606)
Depletion and amortization		**30,464**	-
Future abandonment and site restoration		**4,100**	-
Cash flow from operations before working capital changes		**32,147**	(10,606)
Net change in non-cash working capital items	*(Note 8)*	**(26,545)**	(313)
Cash provided by operating activities		**5,602**	(10,919)
Financing			
Issue of common shares		**619,000**	-
Net change in non-cash working capital items	*(Note 8)*	**(3,333)**	-
Cash provided by financing activities		**615,667**	-
Cash available for investing		**621,269**	(10,919)
Investing			
Expenditures on property and equipment	*(Note 3)*	**(442,577)**	(501)
Property and equipment acquired from Milor Energy Inc. on acquisition of Milor Energy Inc.	*(Note 4)*	**(261,181)**	-
Future abandonment and site restoration provision assumed on acquisition of Milor Energy Inc.	*(Note 4)*	**3,000**	
Deferred income taxes assumed on acquisition of Milor Energy Inc.	*(Note 4)*	**27,000**	-
		(673,758)	(501)
Net change in non-cash working capital items	*(Note 8)*	**(21,135)**	
Cash used in investing activities		**(694,893)**	(501)
Decrease in cash during the year		**(73,624)**	(11,420)
Cash and short term deposits, beginning of year		**240,866**	252,286
Cash and short term deposits, end of year		$ **167,242**	$ 240,866
Cash flow from operations before working capital changes per share	*(Note 7)*	$ **0.01**	$ -

See accompanying notes

FOOTHILLS OIL & GAS LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1996

1. INCORPORATION

Foothills Oil & Gas Ltd. was incorporated under the Business Corporations Act (Alberta) on September 3, 1993 and classified as a Junior Capital Pool corporation as defined in the Alberta Securities Commission Policy 4-11. The Company completed its major transaction as approved at the Special and Annual General Meeting February 27, 1996 involving: (i) the acquisition of all of the issued and outstanding shares of Milor Energy Inc. ("Milor"), a private oil and gas company; (ii) the acquisition of an interest in certain oil and gas properties in the Hayter area of Alberta; (iii) the transfer within escrow of 1,000,000 Common shares of Foothills; and (iv) the private placement of 2,100,000 Common shares of Foothills.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period involves the use of estimates and approximations which have been made using careful judgment. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

Principles of Consolidation

These consolidated financial statements include the accounts and results of the Company for the period of July 1 to June 30, 1995 and 1996, and the accounts and results of its wholly owned subsidiary Milor Energy Inc. from February 27 to June 30, 1996 *(see Note 4).*

Property and equipment

Capitalized costs

The Company follows the full cost method of accounting for its petroleum and natural gas properties in accordance with the guideline issued by the Canadian Institute of Chartered Accountants whereby all costs related to the exploration for and development of petroleum and natural gas reserves, whether productive or unproductive, are capitalized in a Canadian cost centre and charged to income as set out below.

Capitalized costs include lease acquisition costs, geological and geophysical expenditures, lease rentals on non-producing properties, costs of drilling both productive and non-productive wells, equipment costs and general and administrative costs directly related to exploration and development activities.

Proceeds from disposal of properties will normally be applied as a reduction of the cost of the remaining assets unless the disposal represents a significant disposition of reserves, in which case a gain or loss will be recorded.

Depletion and amortization

Depletion of petroleum and natural gas properties and amortization of production equipment is provided using the unit-of-production method based on estimated proved petroleum and natural gas reserves as determined by independent engineers. Amortization of production equipment is based on the cost of the assets net of estimated salvage and residual value. The relative amounts of oil and gas production are converted at a ratio of ten thousand cubic feet of gas to one barrel of oil.

Office furniture and fixtures are carried at cost and amortized over the estimated useful lives of the assets at a rate of 20% calculated on a declining balance basis. Computer equipment is carried at cost and amortized over the estimated useful lives of the assets at a rate of 30% calculated on a declining balance basis.

Ceiling test

The Company applies an annual ceiling test to the net carrying value of petroleum and natural gas properties to ensure that such costs do not exceed the amount estimated to be ultimately recoverable. The estimated amount ultimately recoverable includes the estimated value of future net revenues from production of proven reserves and the cost of unproved properties, net of impairment allowance, less future estimated production related general and administrative expenses, financing expenses, estimated future abandonment and site restoration costs and income taxes. Future net revenues are estimated using year end wellhead prices and costs without escalation or discounting, and the income, capital tax and Alberta royalty tax credit legislation in effect at year end. Any reduction in value, as a result of the ceiling test, is charged to operations.

Future abandonment and site restoration costs

The estimated cost of future abandonment and site restoration is based on the current costs and the anticipated method and extent of site restoration in accordance with existing legislation and industry practice. The annual charge, provided for on a unit of production basis, is accounted for as an expense. Abandonment and site restoration expenditures are charged to the accumulated provision account as incurred.

Inventories

Inventories of materials and crude oil are carried at the lower of cost, using the weighted average method, and net realizable value.

Income taxes

The Company follows the deferral method of tax allocation under which the income tax provision is based on the income reported in the accounts. Under this method, the Company makes full provision for income taxes deferred principally as a result of claiming capital cost allowance and exploration and development costs in excess of depreciation, depletion and amortization provided in the accounts.

Joint operations

Substantially all of the Company's exploration and development activities are conducted jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

Segmented Information

The Company carries on the business of exploration for and development and production of crude oil and natural gas reserves. All of this activity is conducted in Western Canada and comprises a single business segment.

3. PROPERTY AND EQUIPMENT

1996

	Cost $	Accumulated depletion and amortization $	Net book value $
Petroleum and natural gas properties	574,336	24,500	522,836
Production equipment	117,490	3,500	113,990
	691,826	28,000	663,826
Office furniture and equipment	28,114	2,464	25,650
	719,940	30,464	689,476

1995

	Cost $	Accumulated depletion and amortization $	Net book value $
Petroleum and natural gas properties	16,182	-	16,182
Production equipment	-	-	-
	16,182	-	16,182
Office furniture and equipment	-	-	-
	16,182	-	16,182

The additions of petroleum and natural gas properties and equipment for 1996 were based on the following:

	Petroleum & Natural Gas Properties $	Production Equipment $	Total at Jun30/96 $
Petroleum and natural gas properties purchased (i)	309,970	80,000	389,970
Acquisition of Milor by Foothills (ii)	211,191	37,490	248,681
Capital expenditures from February 27 to June 30, 1996	226		226
Capitalized general and administrative expenses	36,767		36,767
Additions for the year ended June 30, 1996	558,154	117,490	675,644

(i) Acquisition by the Company of an interest in certain oil and gas properties in the Hayter area of Alberta at fair market value for an acquisition cost of $400,000 effective February 27, 1996. Payment by the Company with $250,000 cash and the issuance of 1,500,000 Common Shares from treasury at a price of $0.10 per share. Total purchase price of $400,000 comprised of $309,970 for petroleum and natural gas properties, $80,000 for production equipment, and $10,030 for inventory of crude oil.

(ii) Acquisition of Milor effective February 27, 1996 *(see Note 4)*.

As at June 30, 1996 petroleum and natural gas properties include $106,953 relating to unproved properties which have been excluded from the depletion and ceiling test calculations.

The Company applied the ceiling test to the capitalized amounts of petroleum and natural gas properties and production equipment at June 30, 1996 using current prices, and has determined that no writedown is required.

4. ACQUISITION OF MILOR

The acquisition of Milor has been accounted for by the purchase method of accounting effective February 27, 1996. The initial cost of the acquisition to Foothills was satisfied by the issuance of 2,000,000 Common Shares at a price of $0.10 per share. The Company paid $46,059 of costs associated with the transaction.

This purchase price of Milor was allocated based on fair values as follows:

Petroleum and natural gas properties acquired	$248,681
Office furniture and fixtures acquired	12,500
Total property and equipment acquired	261,181
Cash acquired	3,773
Working capital assumed	11,105
Site restoration provision assumed	(3,000)
Deferred income tax assumed	(27,000)
Purchase Price	$246,059

5. SHARE CAPITAL

Authorized

Unlimited common shares of no par value

Unlimited non-voting, first and second preferred shares, issuable in series

The directors of the Company are authorized to determine the designation, rights, privileges, restrictions and conditions attaching to all of the preferred shares.

Common Shares Issued and Outstanding

	Number of Shares	$
Balance as at June 30, 1994 and June 30, 1995	3,400,000	267,228
Shares issued pursuant to private placement (i)	2,100,000	210,000
Shares issued in connection with property purchase (ii)	1,500,000	150,000
Issued to the former shareholders of Milor on acquisition by the Company (iii)	2,000,000	200,000
Issued for cash pursuant to exercise of options (iv)	420,000	59,000
Balance, June 30, 1996	9,420,000	886,228

(i) Pursuant to the terms of an Offering Memorandum dated January 26, 1996 the Company, by way of private placement, sold 2,100,000 common shares for gross proceeds of $210,000 on February 27, 1996.

(ii) On February 27, 1996 the Company issued 1,500,000 Common Shares at a price of $0.10 per share for a value of $150,000 as partial payment for a property acquisition *(refer Note 3).*

(iii) Pursuant to the terms of the Foothills Information Circular dated January 26, 1996, Foothills acquired all of the issued and outstanding shares of Milor Energy Inc. on February 27, 1996 for an acquisition cost of $200,000 (excluding costs associated with the transaction). This amount was paid by the issuance of 2,000,000 Common Shares from treasury at an agreed value of $0.10 per share *(refer Note 4).*

(iv) On February 27, 1996 the Company issued a total of 420,000 Common Shares to officers and directors pursuant to the exercise of stock options with 80,000 Common Shares issued at a price of $0.10 per share, and 340,000 Common Shares issued at a price of $0.15 per share.

Share Purchase Options

The Board of Directors of the Company has adopted a Stock Option Plan for the Company (the "Plan"). Pursuant to the Plan, the Board of Directors of the Company may allocate non-transferable options to purchase Common Shares of the Corporation to directors, officers and employees of the Company and to consultants retained by the Company.

Under the Plan, the aggregate number of shares to be delivered upon the exercise of options granted thereunder may not exceed 10% of the issued Common Shares of the Company at the time of granting the options. Further, the aggregate number of Common Shares to be delivered upon exercise of options thereunder to any one individual shall not exceed 5% of the issued Common Shares of the Company Options issued pursuant to the Plan shall have an exercise price not less than that from time to time permitted by the stock exchange on which the Common Shares are listed.

At June 30, 1996 the Company has 815,000 outstanding common share purchase options with employees, officers, directors and consultants which were issued March 1, 1996. These share purchase options are exercisable at a price of $0.10 per share and expire on March 1, 2001.

Common Shares Held in Escrow

Under the requirements of the Alberta Securities Commission and the Alberta Stock Exchange, 2,000,000 Common Shares are held in escrow. The escrowed shares will by released, upon written consent of the Alberta Securities Commission, as to one-third thereof on the first anniversary of the completion of the Company's major transaction. At the time of consent for the first release, approval of the second and third anniversary releases may also be granted to the shareholders.

6. INCOME TAXES

The following deductions are available for future income tax purposes:

	June 30, 1996 $	Annual Rate of Claim
Canadian development expense	1,078	30%
Canadian oil and gas property expense	312,364	10%
Share issue costs	19,233	20% SL
Undepreciated capital cost	109,740	20%-30%
Balance, June 30, 1996	442,415	

In addition, the Company has approximately $34,745 of non-capital loss carryforwards available for application against income for tax purposes, which expire commencing in 2001. The potential benefits relating to these available losses have not been recorded in the financial statements.

7. EARNINGS AND CASH FLOW FROM OPERATIONS BEFORE WORKING CAPITAL CHANGES PER COMMON SHARE

The calculations of earnings per share and cash flow from operations before working capital changes per share for 1996 are based on the weighted average number of shares outstanding during the period, which is 5,406,667 (1995 - 3,400,000).

Fully diluted earnings and cash flow from operations before working capital changes per Common Share have not been shown since they are not materially different from the basic amounts per Common Share.

8. CHANGES IN NON-CASH WORKING CAPITAL

Changes	
Accounts receivable	($70,173)
Inventory, prepaid expenses and deposits	(42,573)
Accounts payable and accrued liabilities	61,733
Total change in non-cash working capital items	($51,013)

Associated with:	
Operating	($26,545)
Financing	(3,333)
Investing	(21,135)
Total change in non-cash working capital items	($51,013)

9. COMMITMENTS

The Company has future operating lease obligations for office premises until May 31, 2001. Future minimum lease payments as at June 30, 1996 are as follows: 1997 - $21,720; 1998 - $21,720; 1999 - $21,720; 2000 - $21,720; 2001 - $19,910.

CORPORATE INFORMATION

DIRECTORS

Kevin A. Kelly
Vice President, RBC Dominion Securities
Ottawa, Ontario

William J. Kiff
President of the Company
Calgary, Alberta

Raymond A. Siwiec
President, First Canadian Energy Ltd.
Calgary, Alberta

OFFICE

Suite 1620, 734 - 7th Avenue S.W.
Calgary, Alberta T2P 3P8
(403) 264-7911
(403) 237-8105 (fax)

AUDITORS

Barr Shelley Stuart
Calgary, Alberta

OFFICERS

William J. Kiff
President

Charles W. Berard
Corporate Secretary

SOLICITORS

Macleod Dixon
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company of Canada
Calgary, Alberta

STOCK EXCHANGE LISTING

The Alberta Stock Exchange
Symbol: FH

Abbreviations

bbl	barrels
boe	barrels of oil equivalent
mcf	thousands of cubic feet
ARTC	Alberta Royalty Tax Credit

FOOTHILLS OIL & GAS LTD.

ANNUAL REPORT

1995

November 16, 1995

CORPORATE PROFILE

Foothills Oil & Gas Ltd. ("Foothills) is a junior capital pool company listed on The Alberta Stock Exchange. The common shares of Foothills have been suspended from trading since July 6, 1995 pending completion of a Major Transaction.

ANNUAL MEETING

Foothills is currently negotiating a Major Transaction involving the acquisition by Foothills of all the issued and outstanding shares of Milor Energy Inc. Upon approval by The Alberta Stock Exchange of the information circular relating to the proposed Major Transaction, Foothills intends to call a special and annual general meeting of its shareholders. Foothills shall, in any event, hold its annual meeting prior to March 31, 1996.

REPORT TO SHAREHOLDERS

Since incorporation, Foothills has not carried on any business other than seeking out, evaluating and negotiating opportunities for a Major Transaction as defined in the Alberta Securities Commission policies. On October 11, 1995, Foothills issued a press release announcing that it had signed a letter of intent to acquire all of the issued and outstanding shares of Milor Energy Inc., a private company involved in the acquisition, exploration and production of petroleum and natural gas in Alberta. The proposed acquisition would result in a reverse takeover of Foothills by the shareholders of Milor. Foothills is currently negotiating a formal purchase and sale agreement relating to this transaction and anticipates filing a detailed information circular with The Alberta Stock Exchange shortly after the execution of the purchase and sale agreement. Upon satisfactory review of the information circular by The Alberta Stock Exchange, Foothills intends to call a meeting of its shareholders to approve the proposed Major Transaction in accordance with the policies of the Alberta Securities Commission and The Alberta Stock Exchange.

The board of directors extends its gratitude to the Foothills shareholders for their continuing support.

On behalf of the board of directors,

R. Siwiec

Raymond A. Siwiec
President and Secretary

November 16, 1995

FOOTHILLS OIL & GAS LTD.
CORPORATE INFORMATION

OFFICERS AND DIRECTORS
Raymond A. Siwiec
President, Secretary and Director

Philip A. Coleman
Director

P. Douglas McArthur, Q.C.
Director

Herve B. Collet
Vice President

SOLICITORS
Bennet Jones Verchere
Calgary, Alberta

BANKERS
Calgary Imperial Bank of Commerce
Calgary, Alberta

HEAD OFFICE
3203 24th Avenue N.W.
Calgary, Alberta
T2N 1N5

Phone: (403) 289-5341
Fax: (403) 289-7078

AUDITORS
Barr Shelley Stuart

REGISTRAR AND TRANSFER AGENT
Montreal Trust Company of Canada
Calgary, Alberta

STOCK EXCHANGE LISTING
Common Shares
Alberta Stock Exchange
Symbol: FH

FOOTHILLS OIL & GAS LTD.

AUDITORS' REPORT
AND
FINANCIAL STATEMENTS

JUNE 30, 1995

BARR SHELLEY STUART

CHARTERED ACCOUNTANTS • SUITE 600, 808 - 4TH AVE. S.W. • CALGARY, ALBERTA • T2P 3E8 • TELEPHONE (403) 269-1320 1-800-486-7770 • FACSIMILE (403) 269-3573

AUDITORS' REPORT

TO THE SHAREHOLDERS OF
FOOTHILLS OIL & GAS LTD.:

We have audited the balance sheets of Foothills Oil & Gas Ltd. as at June 30, 1995 and 1994 and the statements of loss and deficit and cash flow for the periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 1995 and 1994 and the results of its operations and the changes in its financial position for the periods then ended in accordance with generally accepted accounting principles.

Barr Shelley Stuart
CHARTERED ACCOUNTANTS

Calgary, Alberta
November 1, 1995

FOOTHILLS OIL & GAS LTD.

BALANCE SHEETS
AS AT JUNE 30

		1995	1994 (Note 5)
ASSETS			
CURRENT			
Cash and term deposits		$ 240,866	252,286
Accounts receivable		1,574	1,455
		242,440	253,741
DEFERRED COSTS	(Note 2)	16,182	15,681
		$ 258,622	269,422
LIABILITIES			
CURRENT			
Accounts payable		$ 2,000	2,194
SHAREHOLDERS' EQUITY			
CAPITAL STOCK	(Note 3)	267,228	267,228
DEFICIT		(10,606)	-
		256,622	-
		$ 258,622	269,422

Approved On Behalf Of The Board:

Raymond A. Siwiec, Director

P. Douglas McArthur, Director

FOOTHILLS OIL & GAS LTD.

STATEMENTS OF LOSS AND DEFICIT
FOR THE PERIODS ENDED JUNE 30

	1995	1994 (Note 5)
EXPENSES		
Professional fees	$ 10,606	-
NET LOSS FOR THE YEAR AND DEFICIT AT END OF YEAR	$ (10,606)	-

FOOTHILLS OIL & GAS LTD.

STATEMENTS OF CASH FLOW
FOR THE PERIODS ENDED JUNE 30

	1995	1994 (Note 5)
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net loss for the year	$ (10,606)	-
Changes in working capital balances related to operating activities		
Accounts receivable	(119)	(1,455)
Accounts payable	(194)	2,194
	(10,919)	739
FINANCING ACTIVITIES		
Issuance of capital stock	-	310,000
Costs of issuance of capital stock	-	(42,772)
	-	267,228
INVESTING ACTIVITY		
Increase in deferred costs	(501)	(15,681)
(DECREASE) INCREASE IN CASH	(11,420)	252,286
CASH AT BEGINNING OF PERIOD	252,286	-
CASH AT END OF PERIOD	$ 240,866	252,286

FOOTHILLS OIL & GAS LTD.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1995 AND 1994

NOTE 1 INCORPORATION

The Company was incorporated under the Business Corporations Act (Alberta) on September 3, 1993 and is classified as a Junior Capital Pool corporation as defined in the Alberta Securities Commission Policy 4-11. The Company had not commenced operations at the balance sheet date.

NOTE 2 DEFERRED COSTS

The deferred costs represent legal, accounting and other administrative expenses relating to the Company's efforts to complete its major transaction.

The costs of unsuccessful attempts to complete a major transaction are expensed. The remainder of the deferred costs will form part of the acquisition costs when a major transaction is completed.

NOTE 3 CAPITAL STOCK

Authorized
Unlimited number of common voting shares
Unlimited number of non voting, first and second preferred shares, issuable in series

The directors of the Company are authorized to determine the designation, rights, privileges, restrictions and conditions attaching to all of the preferred shares.

		1995	1994
Issued	3,400,000 common shares	$ 310,000	310,000
	less issuance costs	42,772	42,772
		$ 267,228	267,228

Under the requirements of the Alberta Securities Commission and the Alberta Stock Exchange, 2,000,000 common shares are held in escrow. The escrowed shares will be released, upon written consent of the Alberta Securities Commission, as to one-third thereof on the first anniversary of the completion of the Company's major transaction. At the time of consent for the first release, approval of the second and third anniversary releases may also be granted to the shareholders.

The Company has adopted a Stock Option Plan for its directors, officers, employees and consultants and has granted options to purchase 340,000 common shares at $0.15 per share. These options expire on October 21, 1998.

FOOTHILLS OIL & GAS LTD.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1995 AND 1994

NOTE 4 INCOME TAX LOSSES CARRIED FORWARD

The Company has available losses in the amount of $26,191 which may be carried forward and applied against future income for income tax purposes as follows:

To	2001	$ 7,031
	2002	19,160
		$ 26,191

The potential benefits relating to these available losses have not been recorded in the financial statements.

NOTE 5 COMPARATIVE FIGURES

The comparative figures on the statements of loss and deficit and cash flow are for the 10 month period ended June 30, 1994.

NOTE 6 SUBSEQUENT EVENTS

On July 6, 1995, the Company's shares were suspended from trading by the Alberta Stock Exchange because it did not complete a major transaction within the required 18 month period.

However, on October 6, 1995, the Company entered into a Letter of Intent to acquire all of the outstanding shares of a private petroleum and natural gas company for $200,000 in cash and up to 5,000,000 common shares of the Company. The number of shares to be issued is dependent upon the value of the private company's petroleum and natural gas reserves as evaluated by an independent engineer.

The acquisition is subject to shareholders and regulatory approval. If approved, the share trading suspension will be lifted.